Before the Federal Communications Commission Washington, D.C. 20554

In the Matter of)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated With Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms))))))	CC Docket No. 98-171
Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990)))	CC Docket No. 90-571
Administration of North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size)))	CC Docket No. 92-237 NSD File No. L-00-72
Number Resource Optimization)	CC Docket No. 99-200
Telephone Number Portability)	CC Docket No. 95-116
Truth-in-Billing and Billing Format)	CC Docket No. 98-170

To The Commission:

COMMENTS OF THE ALLIED NATIONAL PAGING ASSOCIATION ("ALLIED") IN RESPONSE TO SECOND NOTICE OF PROPOSED RULEMAKING

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I. INTRODUCTION

Allied National Paging Association ("Allied") respectfully submits these comments in response to the Report and Order (the "Order") and Second Further Notice of Proposed Rulemaking (the "Second Further Notice") released by the Commission on December 13, 2002 in the above-captioned proceeding. Universal service clearly plays a significant role in the provision of telecommunications services in this country and Allied appreciates the efforts the Commission has made to ensure its continued viability. The Commission's decision to maintain the revenue-based model (at least on an interim basis), as well as its decision to base future Universal Service Fee ("USF") contributions on projected revenues,² are positive steps towards that end.

As an initial matter, Allied believes that revenue-based assessments continues to be the most, if not the only, reliable, verifiable and competitively neutral form of USF assessment. It also maintains that Safe Harbor provisions are critical to the industry. Accordingly, Allied strongly urges that the revenue-based model be maintained. (See Section II.1-3, infra.)

In addition, Allied submits that the Connections-Based Methodology with Mandatory

Minimum Obligations (the "Mandatory Obligation Proposal")³ as well as the Connections-Based

Allied is a trade association which for more than thirty-five years has represented the interests of national, regional and local, paging carriers. Allied members include Access Paging, Arch Wireless, Benbow PCS Ventures, Cal Autofone/Repco, Contact Wireless, Cook Paging, Kern Communications, Inc., Kern Valley Dispatch, Lubbock Radio Paging, Madera Radio Dispatch, Metrocall, Midstate Paging, Inc., MTCO Communications, Nationwide Paging, Network Services, Paging Dimensions, Paging Systems, Inc., Power Page, Radio Call Acquisitions, LLC, Starpage, Telephone Connection of Los Angeles, Verizon Wireless, Weblink Wireless, Western Paging, and Wildgate Wireless.

² See Order at ¶29.

Second Further Notice at ¶¶ 75-85.

Contributions Split Between Transport and Access Providers (the "Transport/Access Proposal")⁴, like the previous connections-based proposal⁵, are inappropriate and misguided attempts to modify the current program and will actually pose significant threats to the future of USF in general and the paging industry in particular.

In brief, the proposals to adopt connection-based assessments violate Section 254(d) of the Communications Act of 1934, as amended (the "Act"). Among other things, the Mandatory Obligation and Transport/Access proposals increase paging carriers' respective USF burden despite the fact that there has been no corresponding increase, or increase of any sort, in paging "revenue" generated from interstate traffic. In contrast, interexchange carriers, local exchange carriers and cellular carriers, all of whom provide substantial interstate telecommunications services, will likely see their respective USF obligations decrease or increase at a rate that is disproportionate to the increase projected for paging carriers⁶. Thus, the connection-based assessments are discriminatory, inequitable and otherwise fail to meet the Commission's standards for competitive neutrality. (See Section III.1-2, infra.)

In addition, connection-based assessments violate Section 254(b) and Section 2(b) since they constitute, at least in part, an illegal assessment on intrastate revenues. As noted in 47

⁴ Second Further Notice at ¶¶ 86-95.

See Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Further Notice of Proposed Rulemaking and Report and Order, 17 FCC Rcd 3752 (2002) ("First Further Notice).

Moreover, paging carriers, unlike the other carrier groups that contribute to the USF, are not even eligible to draw from the fund to provide services.

U.S.C. § 2(b)(1), "nothing in this Act shall be constituted to apply or to give the Commission jurisdiction with respect to intrastate communications" yet connection-based proposals impose fees on services without regard to the fact that these services may be intrastate only. (See Section III.3, infra.)

Connection-based assessments are merely (inadequate) proxies for the existing revenue-based model. At best, they replace a well-established, competitively neutral, assessment model with a new program that is rife with uncertainty, difficult to verify, subject to legal challenges, costly to implement and far more difficult to administer than the current revenue-based model. (See Section III.4, infra.)

Moreover, connection-based assessments would likely cause irreparable damage to the already compromised paging industry. The increased (and unjustifiable) contribution levels, in addition to the imposition of connection-based contribution and reporting requirements on numerous carriers that meet the current *de minimis* exception of 47 C.F.R. Section 45.708, create significant burdens that could seriously threaten the very viability of an industry sector that otherwise provides <u>vital</u>, low-cost, reliable telecommunications services to millions of public safety personnel and ordinary citizens through the country. (See Section III.5-6, infra.)

Finally, the Telephone Number-Based Assessment (the "TNA Proposal")⁷, while perhaps superficially attractive, is at best a poor surrogate for the current revenue-based assessment since, among other things, it fails to take into account the significant disparities among services provided to, and the revenue generated by, any particular number. (See Section III.7, infra.)

⁷ See Second Report and Order at ¶¶ 96-100.

For the above reasons, Allied submits that the proposed connection-based assessment models, as well as the TNA Proposal, be rejected and that the current revenue-based assessment, as modified by the Order, be maintained.

II. THE REVENUE-BASED ASSESSMENT SHOULD BE MAINTAINED

1. The Revenue-Based Model Is Reliable, Verifiable And Competitively Neutral.

The revenue-based model has already been found to be a "competitively neutral" method of assessing USF contributions on the various providers of interstate telecommunications services.⁸ In addition, revenue-based models have the distinct advantage of being reliable and verifiable in that carriers are also required to report revenues to the other entities (e.g., the SEC, the IRS, shareholders, etc.) and such figures are always subject to ready audit. Moreover, the measure of revenue, i.e., dollars, remains constant across industry segments and, unlike the concepts of "connectivity" or "numbers assigned", cannot be readily manipulated to reduce USF contributions. Finally, to the extent that carriers choose to recover these fees from consumers as a separate line item⁹, it is far easier to describe the assessment in terms of a percentage of a consumer's overall bill than to try and explain that the charge is based on the degree of "connectivity to the interstate network".

See Federal-State Joint Board on Universal Service, CC Dkt. No. 96-45, Report and Order, 12 FCC Rcd. 8776, 9206-09, ¶¶ 844-850 (1997), as corrected by Federal-State Joint Board on Universal Service, Erratum, CC Dkt No. 96-45, FCC 97-157 (rel. June 4, 1997), aff'd in part, rev'd in part, remanded in part sub nom. Texas Office of Public Utility Counsel v. FCC 183 F.3d 393 (5th Cir. 1999), cert. denied 2000 WL 684656 (U.S. Sup. Ct. May 30, 2000) ("Universal Service Order").

It should be noted that few paging carriers apparently pass on USF charges by means of a separate line item.

2. <u>Any Potential Contribution Shortfall Can Be Addressed Under The Revenue-Based Assessments.</u>

As Allied noted in previously filed comments¹⁰, it has no basis to dispute the Commission's assertions that interstate revenues for some interexchange carriers may have declined and competition in the interexchange market continues to increase. It seems self-evident that if overall interstate revenues decline and current USF contribution factors remain constant, the USF could be faced with a shortfall. However, a revenue-based assessment is perfectly suited to adjust for such market shifts in a competitively neutral manner. Any potential shortfall can be made up by either adjusting the contribution level of all carriers equally and/or by adjusting safe-harbor provisions where supported by the record (as the Commission recently did with respect to cellular carriers).

In addition, the Commission's recent decision to base contribution levels on projected revenues should address many of the problems which resulted from determining contribution levels based on historical revenue reporting. In sum, the revenue-based a model provides a simpler, more efficient method of assessing contribution levels and ensures – to the greatest extent possible – that USF contributions are assessed equitably and in a competitively neutral manner in accord with Section 254(d). ¹¹

Comments of the Allied Personal Communications Industry Association in Response to Further Notice of Proposed Rulemaking at pp. 10-12 filed on April 22, 2002.

The Commission might want to consider using annual projections to determine initial contribution levels much as it does in setting other regulatory fees. See, e.g., Assessment and Collection of Regulatory Fees for Fiscal Year 2002, MD Docket No. 02-64, Report and Order, FCC 02-205 (rel. July 5, 2002) at Attachment C. Such a modification could further reduce the administrative burden on carriers and the Commission all of whom are faced with quarterly filings.

3. <u>Safe Harbor Provisions Are Critical To The Paging Industry.</u>

The safe harbor is critical for paging carriers since, among other things, it minimizes the very real administrative burdens of trying to determine the amount of interstate revenues generated by carriers while giving them the assurance that they are complying with the Commission's mandates on USF. In addition, Allied notes that one of the most efficient and reliable means of determining the level of interstate revenue depends on the identification of calling-party numbers. ¹² Unfortunately, the ILECs have generally been unwilling to provide paging carriers with caller ID spills which would readily allow for such an analysis. In the absence of calling-party ID information from the ILECS (or elsewhere), paging carriers have relied on various means to determine interstate revenue including relying on the safe harbor provision established by the Commission. ¹³

III. CONNECTION—BASED ASSESSMENTS ARE INHERENTLY DISCRIMINATORY

1. <u>Connection- Based Assessments Violate Section 254(d) Of The Act</u>

Section 254(d) of the Act requires, in part, that:

"[e]very telecommunications carrier that provides interstate telecommunications shall contribute, on an <u>equitable and non-discriminatory basis</u>, to the specific, predictable and sufficient mechanisms established by the Commission to preserve and advance universal service." (emphasis added)

Although many paging switches are incapable of tracking calling parties, they are capable of supporting caller ID spills from the LECs.

Allied believes that the current 12% Safe Harbor provision is likely inflated. In particular, Allied notes that the 12% figure was established at a time when the trend in paging was more towards nationwide systems. Given the shifts in interstate traffic patterns among other industry segments, Allied believes that the recent trend for paging has been more in the direction of local and regional services. Allied intends to seek reconsideration of the 12% figure if it is able to obtain the appropriate data including but not limited to the calling-party Id information from the ILECs.

However, connection-based assessments are inequitable, discriminatory and fail to meet the Commission's standards for competitive neutrality.

In particular, the proposed connection-based assessments place a disproportionate burden on paging carriers. For example, the Mandatory Obligation Proposal would increase a paging carrier's proportionate contribution by as much as 186% and no less than 43% ¹⁴ even though there has been no corresponding increase in interstate revenues generated by the industry. At the same time, under this proposal, cellular carriers will experience a 6.4% ¹⁵ increase while IXCs will likely see their proportionate contributions decrease by 22%. ¹⁶

The record supports no such results. In fact, just the opposite is true: there has been no measurable shift of interstate service or revenue to paging carriers (nor would such a shift be possible given the general nature of paging services). Shifts in interstate traffic, as well as revenue increases, if any, have accrued to the ILECs and to cellular carriers while some interexchange carriers have apparently experienced a decline in interstate revenue. Thus, the record simply does not – and cannot – justify these types of increases in USF contributions from paging carriers.

According to the Commission, paging carriers currently pay approximately \$.07 per customer per month. The proposed increase to \$.10 for one-way paging and \$.20 for two-way paging represents an increase of 43% and 186% respectively.

Using the new safe harbor of 28.5%, cellular carriers are currently assessed \$.94 per end user for USF (i.e., \$45.27 (average ARPI) x .285 (safe harbor) x .07285 (contribution factor for 1Q 03)). Thus, the proposal to use a \$1.00 assessment represents an increase of 6.4%.

Interexchange carriers and local exchange carriers would see their contributions decrease from \$1.29 to \$1.00, a decrease of some 22%.

2. <u>Connection-Based Assessments Are Not Competitively Neutral.</u>

As the Commission has previously determined with respect to USF contributions, as well as many other FCC-imposed surcharges, carrier contributions must be assessed in a competitively

neutral manner. The current revenue-based assessment has already been found to meet that standard. ¹⁷ By way of contrast, the proposed connection-based assessments cannot be characterized as competitively neutral.

In addition to the fact that the proposed increase in assessment imposes a disproportionate and unjustifiable USF burden on paging carriers (see Section III.1, supra), a per "connection" fee (even when coupled with a mandatory minimum obligation) is inherently not competitively neutral. Since the unit of measurement, i.e., the "connection", or the degree of "connectivity to the interstate networks" bears no relation to interstate revenue, it requires carriers, which provide little, if any, interstate telecommunications service to their endusers (e.g., many small to mid-sized paging companies) to contribute disproportionately with carriers that provide substantial interstate service to their endusers (e.g., interexchange carriers). Moreover,

See Federal-State Joint Board on Universal Service, CC Dkt. No. 96-45, Report and Order, 12 FCC Rcd. 8776, 9206-09, ¶¶ 844-850 (1997), as corrected by Federal-State Joint Board on Universal Service, Erratum, CC Dkt No. 96-45, FCC 97-157 (rel. June 4, 1997), aff'd in part, rev'd in part, remanded in part sub nom. Texas Office of Public Utility Counsel v. FCC 183 F.3d 393 (5th Cir. 1999), cert. denied 2000 WL 684656 (U.S. Sup. Ct. May 30, 2000) ("Universal Service Order").

See Order at ¶ 4.

So-called "equivalence" adjustments do not remedy this problem. For example, one would minimally expect that the ratio of the connection-based assessment between paging and cellular carriers to be the same as it is under the current revenue-based assessment. Instead, the ratio under the Transport Access Proposal is 1:4 (i.e., .5 units for one-way paging v. two units) or 1:2 (i.e., 1 unit for two-way paging v. two units) whereas it is over 1:13 under the revenue-based model (e.g., (\$8 Paging ARPU)(.12% Safe Harbor)/(\$45.27 Cellular ARPU)(.285% Safe Harbor)). Allied suspects the inequity would be even greater if it had the date to compare the ratio between paging carriers and IXCs/ILECs.

as the number of "connections" for a carrier increase or decrease, it leads to further distortions in assessing and/or adjusting contribution levels. In addition, certain cellular carriers bundle cellular, SMS and paging services in one "connection", thus competing against paging carriers who provide only paging services per one "connection". Under any circumstances, a connection-based assessment cannot be competitively neutral since the unit of measurement is inherently unequal and, unlike revenue-based models, is almost impossible to verify.

3. <u>A Connection-Based Assessment Effectively Imposes A Charge On Intrastate</u> Telecommunications Services.

As the Commission is aware, Section 254(d) provides for USF contributions to be assessed only upon those carriers that provide interstate telecommunications services. Section 2(b) prevents the Commission from exercising jurisdiction over interstate communications. The Commission has also determined that such assessments can be made only on the interstate/ international revenues of the carrier, and not upon the intrastate revenues. However, connection-based assessments do exactly that since they completely blur the distinction between intrastate and interstate revenue. There is simply no way of determining whether a particular "connection" has any interstate component. Thus, carriers like many local and mid-sized paging carriers that—for all practical purposes — provide only intrastate service to their end users are forced to contribute to USF even though those "connections" do not generate any interstate revenue. Such an assessment would violate Section 254(d) as well as Section 2(b).

4. <u>Connection-Based Assessments Are Merely Inadequate Proxies for Revenue-Based</u> Models

Trying to measure "connectivity to interstate networks' is merely a more cumbersome, and untested, attempt to create a competitively neutral assessment for USF. Aside from the arguably superficial appeal of such assessments (it arguably appears simpler to impose

mandatory minimum obligations and then count "connections" and multiply by a flat fee), connection-based models merely replace a well-established revenue-based assessment with one that will be particularly cumbersome to monitor and implement. The potential complications with a connection-based assessment are almost insurmountable.

First, the Commission (and the industry and other interested parties) would have to determine how to calculate – and monitor – the number of reported "connections" or the degree of "connectivity" per carrier. For example, the prospects for the Transport Access Proposal are daunting. A multi-tiered system based on imprecise distinctions between transport and access, switched and unswitched services will require teams of lawyers and engineers to decipher. Such a program can only lend, at best, to confusion and at worst, to attempts to otherwise manipulate networks and definitions to reduce a carrier's USF obligations. The potential challenges (legal and otherwise) to even defining one such program could delay implementation for years.

Second, the carriers (as well as the Commission) will have to spend considerable resources to develop a new reporting format, train personnel to be able to accurately complete the form and recalibrate billing systems to pass on the costs to end-users. As it currently stands, the reporting requirements faced by carriers – whether in the form of NRUF filings, 499-Qs, 499-As or others – are already burdensome (if not overwhelming). For many larger carriers, "compliance departments" have been created to keep up with these demands; for smaller to mid-sized carriers, the burden falls on already over-extended employees. In addition, the administrative costs of developing a new "form" and the corresponding instructions are immense. Moreover, carriers have already invested significant resources in creating systems to comply with the reporting requirements under the current program.

Third, connection-based assessments will likely create incentives for some carriers to package their services in such a way as to reduce the number of "connections" or to manipulate their networks to adjust their level of connectivity, and thus their USF obligations, in order to gain a competitive advantage.

Fourth, as the Commission noted previously, adjustments to connection-based assessments as a result of changes in the telecommunications market (e.g., increased connections, reduced USF outlay, shift in connections among carrier types) will require complex recalibrations – and additional proceedings – to implement.²⁰

Fifth, and perhaps most importantly, there does not appear to be any practical (or legal) rationale to discard the current revenue-based model. The Commission has long recognized and utilized revenue-based assessments to ensure fair, non-discriminatory and competitively neutral surcharge and cost-recovery models.²¹ Carriers are familiar with the concept of revenue-based reporting. In fact, the revenue-based model is used for almost all, if not all, FCC and state imposed surcharges including Telephone Relay Service, Universal Service, Number Administration and Local Number Portability Support Mechanisms. There has simply been no showing that this model is no longer valid as it relates to USF or any other fund.

5. <u>The Proposed Revision To The *De Minimis* Exemption Will Damage Small And Mid-Sized Carriers.</u>

First Further Notice at ¶ 75.

See e.g., In re Number Resource Optimization, FCC 00-104, Report and Further Notice of Proposed Rulemaking (rel. March 31, 2000) ¶ 207. ("We further conclude that the costs of thousands-blocks number pooling be allocated to all telecommunication carriers in proportion to each carrier's interstate, intrastate and international telecommunication end user revenues.")

Allied strongly encourages the Commission to maintain the *de minimis* exemption authorized in Section 254(d) and codified at 47 C.F.R. § 54.708 (i.e., carriers with annual USF contributions of less than \$10,000 do not need to contribute). As discussed below, the proposed modification will effectively eliminate that exemption for many small and mid-sized carriers; i.e., the carriers that are least able to shoulder the additional burdens.

The current exception allows paging carriers with fewer than approximately 12,000 subscribers to operate without the burden of USF obligations.²² As the Commission is well aware, this exception provides essential relief to numerous carriers, and in particular small to mid-sized paging companies which are sorely pressed to provide low-cost services and keep up with all the federal (and state) mandated compliance filings. Moreover, these small to mid-sized paging companies provide little, if any, interstate communications, and cannot readily absorb, or pass on, additional regulatory fees of this magnitude. In many ways, the *de minimis* exception acts as a surrogate for being designated an intrastate carriers. If these carriers were forced to contribute to the USF, as they would under a connection-based assessment, it could be financially devastating to the carriers and the availability of these vital, low-cost services to their end users.

The proposed modifications to the d*e minimis* exception, which uses \$100,000 in interstate revenue as the threshold for participation, essentially reduces the threshold from

Assuming an ARPU of \$800 per enduser, a paging carrier must have at least 11,916 endusers to meet the \$10,000 threshold (i.e., \$10,000 USF contribution/.07285 contribution factor/.12 safe harbor/(\$8 ARPU+12 months) = 11,916 end users).

12,000 endusers by <u>27%</u> to approximately 8,700.²³ Such a shift will impose new reporting and financial burdens on the very small to mid-sized carriers that are least able to absorb the load.

6. The Imposition Of Connection-Based Assessments Is Potentially Devastating To The Paging Industry.

As recognized throughout the telecommunications industry, the paging industry still faces serious challenges. Almost all of the national paging carriers over the past 10 years (including

PageNet, Arch Communications, TSR Wireless LLC, Mobilemedia Communication, Weblink Wireless and Metrocall) have filed for bankruptcy protection (although some have been able to successfully reorganize). The total number of paging subscribers has declined, the capital markets have long turned their backs on the industry and the primary infrastructure providers (Glenayre and Motorola) have essentially abandoned the field.

Nonetheless, the paging industry is prepared to face these challenges. Numerous carriers – national, regional and local - remain dedicated to providing their end users with low-cost, highly reliable paging services as well as new technologies. New manufacturers have arisen to fill the void created by Glenayre and Motorola and carriers have formed new national organizations to represent the industry and the vital services it provides. However, under the current conditions, the industry simply cannot absorb (nor should it be required to absorb under any circumstances) such inequitable obligations. While the paging industry seeks no favors from this Commission, it does not expect disproportionate burdens either.

That figure is calculated as follows: \$100,000 interstate revenue/.12 safe harbor/(\$8 ARPU x 12 months) = 8,681 end users.

7. <u>A Telephone Number-Based Assessment Is An Inappropriate Substitute For The Revenue-Based Model.</u>

While the Telephone Number-Based Assessment²⁴ may have some superficial appeal as an alternate method of assessment, it is nothing more than another imprecise proxy for a revenue-based assessment. In fact, unless USF assessments were based on assigned numbers²⁵ combined with an equalization factor to account for the vast differences in capacity/interstate revenues associated with those numbers by various industry groups, a telephone number-based assessment is as discriminatory as the other connections-based assessments discussed above.

Moreover, a telephone number-based- assessment raises several other concerns. Among other things, local exchange carriers, cellular carriers and paging carriers all report assigned numbers in their bi-annual NRUFs (Form 502) while IXCs have no such reporting requirements since they are generally not code holders. In addition, intermediate members (i.e., the numbers allocated by carriers to resellers and other non-carrier entities) do not count as assigned numbers and thus allow for a certain amount of gamesmanship if fees were set by assigned numbers. Finally, number assignments do not account for the different capacity associated with the service being provided, or for the vast differences in revenues generated by a particular number for a particular service.

Once again, this proposal, like the Mandatory Minimum Obligation and Transport Access assessments discussed above, is nothing more than an inadequate, unnecessary and potentially discriminatory substitute for the revenue-based model.

²⁴ Second Further Notice at 96-100.

IV. CONCLUSION

Connection-based assessments are inequitable, discriminatory and could otherwise seriously compromise the continued viability of the paging industry. Moreover, the proposed connections-based models would be inefficient, costly, and difficult to verify. Finally, any potential problems created by the shift in interstate revenue among carriers can best be addressed under the current revenue-based model. In short, connection-based assessments offer no

Assigned numbers as that term is defined for NRUF purposes. Allied notes that non-LNP carriers, like paging carriers, cannot participate in thousands-block number pooling and are still required to hold code in full 10,000 blocks. Thus, LNP capable carriers are able to significantly reduce their inventory of numbers that are not assigned to customers in a manner that is not possible for non-LNP carriers. Thus, a comparison of numbers "held" by, as opposed to "assigned by" carriers would be inherently discriminatory.

practical, legal or even theoretical advantages over the current revenue-based mode. Thus,

Allied respectfully suggests that the Commission maintain the current revenue-based assessment
model (as recently modified).

Respectfully submitted,

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